

City of Seattle Voluntary Deferred Compensation Plan Regular Trust Committee Meeting Minutes

Wednesday, May 22, 2018 10:00 am – 12:00 pm
Seattle Municipal Tower, Room 4080

TRUSTEES present: Teri Allen, Jeff Davis, Dennis Karl, William Alves, Scott Fuquay, and Bobby Humes

STAFF present: Michelle Ell, Tony Dozier, Malia Bonham; Jeff Slayton - CAO

CONSULTANTS present: Jake O'Shaughnessy and Stuart Payment from SageView Advisory Group; Michael Monaco and Gavin Parr from Mondress Monaco Parr Lockwood (MMPL)

GUESTS present: Kent Morris, Kris Morton, Susan Wilson, and Olivia Anastasi from Nationwide; George Emerson, FAS

BUSINESS

Opening: Teri Allen, Committee Chair, started the meeting at 10:00am.

Introductions: Teri Allen welcomed attendees and asked for introductions.

Public Comment: There was no public comment

Minutes of March 27, 2019 Regular Meeting: Teri asked for a review of the meeting minutes. Jake O'Shaughnessy noted that a correction was needed to the rankings reflected in the minutes for Calvert for the 1-, 3-, and 5-year periods, as they should state that Calvert was in the 5th, 20th, and 26th percentiles for these periods, respectively.

MOTION: Scott Fuquay moved to approve the minutes as amended with Jake's correction. Motion was seconded by Jeff Davis and passed unanimously.

Administrative Update: Michelle Ell provided an update on Specified Assets communications. The participant notice has been drafted and is awaiting update for fund additions to the Specified Assets category. She expects Nationwide to update their website with the notification regarding Specified Assets funds in July and the earliest a fund could be added to the Specified Asset Window would be August.

Michelle informed the Committee that the customer service survey email was sent this week to every participant with a balance who has provided their email address to Nationwide. Results are expected by the July meeting. A question regarding ESG funds was included to solicit feedback regarding the types of funds participants may want to see.

Dennis Karl arrived at 10:08am.

Nationwide Q4 2018 Update: Kris Morton reviewed Nationwide's Q1 report with the Committee. He reported the Plan continues to grow and assets have increased to \$1.25 Billion. The report shows 9,999 participants, but as of today there are over 10,000 participants in the Plan. The large increase of 69% in total contributions was a result of the SPOG retro pay, new IRS limits, and an inflow of new participants.

Susan Wilson noted that in-person meetings increased significantly. She added that 68% of all new enrollment (120 out of 201) were via the EZ Enroll form.

Market Overview and Executive Summary: In addition to providing a Q1 2019 market overview, Jake O'Shaughnessy provided an update on the performance of the Plan as a whole and individual investment funds.

Jake noted the Sterling Capital Mid Value I Fund had continued to perform below expectations and was below the median relative to other Mid Cap Value Funds across all time periods as of 03/31/2019. Jake therefore recommended to maintain the fund on watch status or to select a replacement. He noted that approximately 1% of total Plan assets are in this fund.

Wells Fargo Stable Value Fund: Jake explained that this fund is managed by Galliard Capital Management, which is currently a subsidiary of Wells Fargo. However, Wells Fargo has announced divestiture of its institutional retirement and trust business to Principal Financial Group. The transaction is currently expected to close early in the 3rd Quarter and the potential impacts to Galliard are unclear. Additionally, Galliard has announced that 3 of their top managers will be retiring within the next 12 months. These factors together introduce the potential for volatility and uncertainty with this fund over time which should be monitored according to SageView.

Jake noted that to exit this fund, Galliard would need to be provided a 12-month put notice, which could always be rescinded. SageView does not recommend providing the put notice yet, but will continue to monitor the situation at Galliard, and in particular the length of the put queue as of 3/31/19 (once that information is available), and will provide an update and further recommendations at the next Committee meeting.

Mid Cap Value: Jake discussed with the Committee Sageview's Mid-Cap Value Manager Review regarding potential replacements for the Sterling Capital Mid Value I fund. He recommended that Sterling be replaced with the American Century Mid-Cap Value R6 Fund, which has demonstrated superior overall performance, including better risk adjusted returns and a lower expense ratio. He also noted the fund is closed to new investors but is still available within the Nationwide omnibus trading arrangement in place. Teri Allen asked if this would be a 100% transfer, to which Jake replied yes. Michelle noted a 30-day fund change notice would be sent out advising participants of the change and that funds currently invested in Sterling will be invested in the new Mid Cap Value investment option unless participants make a different investment election prior to the change.

MOTION: Bill Alves moved to remove the Sterling Capital Mid Value I fund from the Plan's investment line-up and to replace it with the American Century Mid-Cap Value R6 fund. Plan assets currently invested in the Sterling Capital Mid Value I fund will be mapped to the American Century Mid-Cap Value R6 fund unless the participant makes a different investment election. Jeff Davis seconded the motion. Motion passed unanimously.

Bill followed up to ask about the Fidelity Low-Price Stock Fund to which Jake responded it is not currently on the SageView approved list.

Specified Assets: Jake discussed with the Committee potential Specified Asset types. He stated that Calvert Equity Portfolio Class I was a broad-based Environmental Social and Governance (ESG) fund that met the criteria of positive performance metrics and a stated benchmark. However, it lacks certain traits with regard to the fund's carbon footprint focus, which may be desired as a potential Specified Asset type by the Committee. Therefore, the Committee had asked Sageview to engage in review of potential Specified Asset fund candidates with explicit carbon footprint criteria, positive performance metrics and a stated benchmark. Jake reviewed with the Committee four potential candidates that met these criteria, but none were selected for addition to the Plan at this time.

Regarding evaluation of ESG factors, Jake stated that Morningstar has an ESG score available, but this often does not cover all aspects of a desirable fund and focused on aspects such as carbon output, not proactive environmental change. He explained the difference between an ESG rating and Morningstar rating. He also discussed challenges with regard to scoring how 'carbon friendly' a particular fund is, and the different methods available for evaluating this.

Bobby Humes asked about a fund that addresses diversity and to be aligned with the City's values of Race and Social Justice. Jake replied that this could be reviewed. Jeff Davis asked if the Calvert fund is qualified as an SRI or ESG fund. Jake replied it currently is one of the best funds that hits all the metrics but may not be the best carbon friendly fund.

Michelle reiterated that the plan customer service survey does include questions about ESG funds and specifically asks participants about which types of funds participants would like to see. The Committee agreed to wait and review the results of the survey before taking further action with regard to adding future options to the Specified Assets Window.

Executive Session: The Committee met for Executive Session to receive advice on a potential litigation matter beginning at 11:41 am and ending at 11:55 am.

Adjournment: Teri Allen moved to adjourn the meeting at 11:56 pm provided there were no objections. Hearing none the meeting was adjourned without objection.

Next Meeting: The next regular meeting is scheduled for Wednesday, July 24, 2019 at 10:00am in the Seattle Municipal Tower, Conference Room 4080.